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ECONOMIC NEWSLETTER

Russian Research Center
Harvard University

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INDUSTRIAL PRODUCTION FIGURES FOR FIRST 6 MONTHS of 1988

Product	Jan-June 1988	Jan-June 1988 as a % of Jan-June 1987
Electricity (billion kw hrs)	860	103%
Petroleum (million tons)	312	101
Natural Gas (billion meters^3)	383	107
Coal (million tons)	393	103
Steel (million tons)	81.7	101
Fertilizer (million tons)	18.7	104
Metal-cutting tools (thousand units)	11.0	104
Robots	*	*
Computer tech. (billion rubles)	3.0	115
Tractors (million hp)	26.4	102
Paper (million tons)	3.2	103
Cement (million tons)	69.5	102
Meat (million tons)	6.2	104
Margarine (thousand tons)	851	104
Watches (million units)	36.6	106
Radios (million units)	4.0	99.5
TV sets (million units)	4.8	113
Automobiles (thousand units)	660	99.96

* not published

LIVESTOCK HERDS

Herd	07/01/77	07/01/88	% Change
Cattle	99.3	97.6	98%
Cows	29.2	28.9	99
Hogs	54.9	58.4	98
Sheep & Goats	142.9	145.0	101
Poultry	787.7	790.7	100

INDUSTRIAL PRODUCTION FIGURES FOR FIRST SIX MONTHS OF 1988

Something seems amiss in the reporting of Soviet statistics. As we indicated in the July newsletter, the Soviets did not report production figures for May 1988. Admittedly they may have released the figures, but not in the usual sources. However, we have checked all the main economic journals and were not able to find anything. If any of our readers are aware of the publication of such material, we would appreciate knowing where you found them.

As we anticipated, however, the Soviets did indeed publish the statistical results for the first six months of the year. They have traditionally provided production figures annually, quarterly, and semiannually even when they were not publishing them on a month by month basis.

Looking at the figures for the first six months of the year, it does not seem likely that the figures were so poor as to warrant the withholding of publication. Nonetheless, there clearly are some very real problems out there for Gorbachev. Many of those problems were reported at the party conference. They now show up to some extent in the statistics which have been officially reported. However, it is not all bad news. For example, produced national income during the first 6 months of 1988 rose 5% against the first six months of 1987, whereas in 1987 that figure was only 2.4% higher than the comparable period in 1986. Similarly, retail sales rose by 6.4% in 1988 over 1987, versus 2.2% in 1987 over 1986. Foreign trade volume rose 5% in 1988 over 1987 versus a drop of 4.3% in 1987 over 1986. (The foreign trade increase may be purely a function of higher energy prices.)

However, the problems are the most intriguing. For example. Whereas housing construction in the first half of

six month period. What is significant about that is that given all the bleak news in the economy, the one thing that Soviet economists could point to with pride to the increase in housing construction. Now that seems to have leveled off. Also noteworthy is the fact that the size of the workforce has dropped by 3%. That is largely a consequence of people being fired.

The Soviets continue to have a quality problem. Eight percent of the goods produced during the first six months were rejected the first time they were submitted to the quality inspectors. That involved 6 billion rubles worth of goods. Ultimately all but 40 million rubles worth of goods were accepted, but it did disrupt the production plan.

In terms of industrial output, the Soviets seem to be having some problem with oil production again. For the entire six months, oil output was up 1%, or 3 million tons of petroleum. Because we lack the figures for May, we are unable to calculate the month by month production for May and June. We do know, however, that as of the end of April, petroleum production was up 4 million tons over 1987. This indicates, therefore, that the increase of petroleum production as of June 30 was not as high as it had been as of April 30. That suggests that in at least one of the months of May or June, petroleum output dropped by at least 1 million tons. That suggests that the rate of increase is diminishing and indeed, the rate of petroleum output may be constant again, as it was apparently in March. The same thing seems to have happened in the steel industry.

One of the most interesting revelations found in this statistical report is how the demonstrations in the Caucasus have effected the Soviet economy. The report notes that there were substantial disruptions in the supply of potatoes, fruit and vegetables. In particular, there was considerable waste. More than 1.5 millon tons of potatoes, vegetables and fruit were declared unfit for human consumption and that represented 1.5 billion rubles in retail prices. That is equivalent to approximately $900 million. In part that explains why the sale of food and citrus was only 63% of what it had been in the 6 month period of 1987. That is a very significant drop. Similarly, potatoe sales were down 8%. Vegetables sales, however, were up 6%, meat sales were up 5%, and sugar sales were up 3%. However, we know that sugar supplies have been severely disrupted. Since the Caucasus are such an important area for the growing of fruit, it seems fairly certain that the strikes that took place both in Armenia and Azerbaidjan had a disruptive effect. Some of that disruption spilled over into Georgia where demonstrations have also been reported and apparently into Turkmenistan.

Finally, it is worth noting that sales of alcohol were approximately the same in the first half of 1988 as they were in the first half of 1987. That suggests that Gorbachev's anti-alcohol drive is losing some of its force. Vodka sales were only 2% less, while beer and brandy sales were up 9-10%.

LIVESTOCK HERDS

The livestock herds continue to deteriorate. Whereas as of July 1, 1987, the herd was down only 1% from July 1, 1986, on July 1, 1988, the cattle herd is down 2%. The cow herd is down 1%, down about 2% lower than it was in 1986. The size of the hog herds also dropped about 2%, about the same as the drop in 1987 over 1986. The sheep and goats increased by 1% and the poultry herd is approximately the same.

Opinions and ideas expressed in the RRC Economic Newsletter are those of the author and not the Russian Research Center or Harvard University unless specifically stated as such.

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USSR Foreign Exchange Quotations

	3 Feb	2 Mar	6 Apr	4 May	1Jun	29 Jun
£100 Sterling	105.44	106.48	111.42	111.21	111.07	106.45
100 Aust. sch.	5.06	5.07	5.06	5.03	4.96	4.83
100 US Dollars	60.12	60.02	58.96	59.46	59.99	62.06
100 Fr. Francs	10.57	10.51	10.51	10.42	10.38	10.09
1,000¥ Japanese	4.66	4.68	4.77	4.76	4.80	4.72
10,000 Italian Lire	4.83	4.83	4.81	4.76	4.71	4.59
100 Swiss Francs	43.69	43.31	43.37	42.52	41.75	41.01
100 D. marks	35.62	35.62	35.64	35.42	34.89	34.00

CORPORATE SPONSOR SEMINAR SERIES: JOINT VENTURE CONFERENCE

Our conference cn joint ventures is scheduled for October 3 and should be particularly interesting. We have added one new speaker. We have just heard that Vladimir Yakovlev will be flying over from Moscow to attend the conference. Mr. Yakovlev is the Chairman of FAKT, a cooperative which serves as a consulting organization for private entrepreneurs and other cooperatives. It is trying to coordinate all cooperative activity inside the Soviet Union. Among its other activities, it is trying to line up cooperatives in the Soviet Union which have something to export or are interested in producing goods for export with interested partners from overseas. Mr. Yakovlev is the son of the editor of Moscow News. He is apparently a very bright and imaginative entrepreneur and we are delighted he will be joining us.

GLASNOST'

The Soviets are now publishing more data about their petroleum and natural gas exports. They have stopped publishing the quantitative figures since 1977. For the last ten years they have been releasing only exports and imports. They are now again releasing more detailed information. As we indicated in an earlier newsletter, total exports of crude oil and oil products were 186 million tons in 1986. We now have the figure of 195.8 million tons for 1987. Natural gas exports were 79 billion cubic meters in 1986. The new figure for 1987 is 84 billion cubic meters. The accompanying table provides more detailed information for some of the hard currency countries. One of the first things to notice is that prior to 1977, the Soviets did not usually differentiate between crude oil exports and refined produce. They only provided an aggregate figure. Now they separate the two categories. The West Germans import the most refined product, followed closely by Italy. Combining both categories, however, the Italians import the most because their crude oil imports from the Soviet Union are almost double those of the West Germans. The Italians import even more than the Finns, although, of course, the Finns pay for their petroleum not in hard currency, but in bartered goods. It is worth noting how Soviet crude oil exports to Spain increased almost ten-fold in 1987 compared to 1986.

The largest purchaser of Soviet natural gas is West Germany, followed by France and then by Italy. Austria is in fourth place.

SOVIET PETROLEUM AND NATURAL GAS EXPORTS TO HARD CURRENCY COUNTRIES AND FINLAND

Country	Petroleum Products (1000 tons) Crude Oil		Refined Product		Natural Gas (million cubic meters)	
	1986	1987	1986	1987	1986	1987
Austria	886	807	99	44	4,049	3,023
Belgium	1579	1682	2490	2422		
Great Britain	2088	2463	2727	3428		
Denmark	370	89	817	988		
France	6103	6584	5074	3851	9,318	8,770
West Germany	3739	4383	7615	6903	15,310	17,334
Ireland	--	--	299	324		
Italy	8097	8203	7575	6901	7,953	8,571
Japan	100	31	819	944		
Netherlands	1780	2224	4533	4887		
Norway	199	343	198	161		
Spain	428	3677	259	1333		
Sweden	640	1897	1767	1384		
Switzerland	553		1155	1987		
United States	70		284	372		
Finland	8477	8312	4094	3651	1,240	1,642

SOVIET OIL IMPORTS: CRUDE OIL

Country	1986	1987
Algeria	3405	1270
Iran	--	216
Iraq	3168	9677
Libya	4604	2580
Saudi Arabia	2883	

RUSSIAN RESEARCH CENTER
of HARVARD UNIVERSITY
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JOINT VENTURES IN COMPARATIVE PERSPECTIVE:

THE SOVIET UNION AND CHINA

October 3, 1988

Harvard Faculty Club

9:45 a.m. **BACKGROUND**

Debra Spar, Department of Government, Harvard University
"Early Joint Ventures in the USSR"

Jerome Jacobsen, President, Economic Studies and former Vice Chairman, Bendix Corporation
"The Bendix Experience: Lessons for the Future"

Kurt Campbell, Assistant Director, Center for Science and International Affairs, Kennedy School of Government, Harvard University
"The Soviet Experience: The Selling of Gold and Diamonds"

11:30 a.m. **THE LAW ON JOINT VENTURES**

Sarah Carey, Heron, Burchette, Ruckert and Rothwell
"Negotiating a Joint Venture Contract with the Soviet Union"

Jerry Cohen, Paul, Weiss, Rifkin, Wharton & Garrison
"Joint Venture Contracts with the People's Republic of China"

1:00 p.m. Luncheon

2:15 p.m. **JOINT VENTURES IN THE USSR**

Vladimir Yakovlev, Chairman, FAKT (a Moscow consulting firm which advises private entrepreneurs and cooperatives)

Henry L. Sweat, Vice President, Honeywell, Inc.

William Zohlner, Vice President, Combustion Engineering

Frank Cutitta, Managing Director, International Market Sevices, IDG Communications (PC World joint venture)

James Giffen, President, Mercator Corporation

3:45 p.m. **JOINT VENTURES IN THE PRC**

Tan Feng, Office Administrator, Beijing Stone Group (joint venture with Mitsui) *

Jack Dorgan, Vice President, Occidental Petroleum

Donald Sorterup and Ernest De Bellis, General Manager of International Operations and Director of Joint Ventures, Foxboro Corporation

4:30 p.m. **PROSPECTS FOR THE FUTURE**

Marshall I.Goldman, Associate Director, Russian Research Center, Harvard University and Professor of Economics, Wellesley College

4:45 p.m. Adjourn

*subject to final confirmation

RUSSIAN RESEARCH CENTER

OF HARVARD UNIVERSITY
and the JOHN M. OLIN FOUNDATION

JOINT VENTURES IN COMPARATIVE PERSPECTIVE: THE SOVIET UNION AND CHINA

OCTOBER 3, 1988

Harvard Faculty Club
20 Quincy Street
Cambridge, MA 02138

Name: _____

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Company or Publication: _____

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Registration Fee: $200

Registration fee must be paid in advance. All checks should be made payable to The Russian Research Center. Russian Research Center affiliates are invited to attend the conference, but must register in advance.

Hotel Reservations:

Please indicate below if you would like us to make hotel reservations for you. A letter of confirmation will be mailed to you indicating the location and the nightly rate. The Russian Research Center will not guarantee rooms for participants.

Date (s): _____

Single ( ) Double ( )

Return application and registration fee to:

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Going Back to China and the Soviet Union

By Merle Goldman
and Marshall I. Goldman

During a visit to the Soviet Union and China in May and June, we were struck by the widespread disappointment and disillusionment with the two nations' economic reforms.

While the bitterness is similar, the reasons for it are very different.

Merle Goldman is professor of Chinese history at Boston University. Marshall I. Goldman is professor of economics at Wellesley College and associate director of the Russian Research Center at Harvard.

In the Soviet Union, there is dismay that political changes have been accompanied by almost no tangible economic improvements. If anything there has been deterioration, at least in living standards.

By contrast, in China there has been almost too much improvement. The combination of rapid growth and price reform has fueled inflation, which has had a particularly adverse effect on almost all intellectuals and bureaucrats and some factory workers.

With industrial output growing at the astounding rate of 17 percent a year (we visited a county where industrial output was growing at an incredible 40 percent a year) we expected to find the Chinese pleased with the changes of the nine years since the reforms began.

Indeed, villagers and private and cooperative businessmen were doing very well. Even our city friends acknowledged that their homes were now filled with conveniences such as washing machines, refrigerators and television sets that almost none of them had before 1978. But now they find that because of rising prices, as much as 80 to 90 percent of their income must be spent on food.

Because development is so rapid, more bottlenecks are likely to appear, pushing prices up even higher than the current 20 percent inflation rate. Construction cranes are everywhere, in towns as well as cities.

But unlike the Soviet Union, where construction seems to drag on for years, the pace in China is frenetic. What were traditional hutongs, or lanes, only two years ago are likely to have been transformed into streets surrounded by multistory office buildings, hotels and apartments.

Our favorite private department store on Goldfish Lane in Beijing has disappeared, along with the lane itself. In its place are two modernistic 20-story hotels separated by what will be a spacious boulevard. Private and cooperative restaurants, shops, vendors and repairmen have cropped up on virtually every street corner.

Even more spectacular, we went to Zhongguancun Street near Beijing University, the city's version of Boston's Route 128 high-tech development area. There we visited the Stone Electronics Group. Formed a mere four years ago, this collective began with seven partners selling imported computers and has grown into an 800-person enterprise, which among other things now assembles its own electronic typewriter that prints in both Chinese and English characters.

The Stone Group is not only thinking of opening a branch in the United States, but even of a public issue of its stock. This issue might be traded on the Shanghai Stock Exchange, where the stock of six companies and the bonds of many other companies and state and city governments are traded. During our visit we bought a 100-yuan bond of the Shanghai Petrochemical Combine.

The contrast with Moscow could not have been sharper. The lines for food were as long as ever. Because of sabotage, poor storage and bad distribution, the sales of potatoes and vegetables actually fell in 1987 compared to 1986, and the sales of fruit dropped almost 25 percent during the first three months of 1988. As a result of the anti-alcohol campaign, moonshiners have grabbed sugar from the shelves. This has led to sugar rationing in many areas and long lines for sugar and candy. As bad as things were under Leonid I. Brezhnev, at least there was sugar.

While the party conference debate indicates a quickening of the discussion on political reform, there was little to indicate a quickening of the pace of economic reform. The reformers with whom we spoke envy China its growth and bemoan the lack of results in their own country.

They notice in particular the traditional Soviet penchant for emphasizing large-scale industry and agriculture and downplaying small-scale efforts. Yet it is the small-scale enterprises, especially in the countryside, that have been the source of much of China's growth, increasing at 20 to 30 percent a year. In fact they account for one-third of China's industrial output. Moreover, nonagricultural output in the countryside, which used to be negligible, now exceeds agricultural output.

Because the prices at most of the new private and cooperative ventures are high, they are out of reach of all but a few Soviet citizens. In China, the cooperative restaurants we visited were filled with Chinese; in Moscow we saw almost no Soviet customers. As one Russian cab driver complained: "The owners are the new profiteers. I will never be able to afford such prices."

The discontent in the Soviet Union reflects the failure to improve consumer wellbeing and a concern that prices are beginning to increase. Chinese urban residents share a similar concern about inflation, and one Shanghai economist warned us that if inflation gets out of hand there might be another revolution. Yet as disconcerting as Chinese inflation may be, Deng Xiaoping at least can take solace in knowing that the economy has improved radically and that price reform is already under way.

By contrast, not only has there been little improvement in the Soviet standard of living in the last three years, but even without price reform the people are beginning to feel the effects of inflation. Several speakers at the recent party conference, including Mr. Gorbachev himself, acknowledged the urgency of the situation.

If he is to have the support of the people, Mr. Gorbachev must show that perestroika can put more goods on the kitchen table. That is why he emphasized the need to increase the number of family farm-type operations. But as a Soviet peasant explained in The Moscow News, because of "the unpleasant memory of ... collectivization and how many farmstead owners were deported to Siberia," few farmers are taking up Mr. Gorbachev's offer. These peasants' memories, along with those of private businessmen, help explain why there has been so little real restructuring of the Soviet economy.

By all standards, the Chinese have gone further faster in restructuring, but the fact that even they are encountering widespread disillusionment indicates how difficult is the process of economic reform in a society built on the socialist model. □

THE NEW YORK TIMES